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Business Conditions and Forecasts

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President's Scratchpad

LAWRENCE A. APPLEY

Human Inadequacy

IN THE United States we celebrate Christmas in a peculiarly American way. The countries of the old world recognize it primarily as a religious holiday. The acknowledgment to the Creator is explicit, while here the day is a time for joy and merriment—the reasons for which are vague in the minds of many. But Americans are notoriously self-conscious concerning religious display. The writer is one of those who happen to believe that deep in the hearts of Americans there is at Christmastime particularly a real emotion that springs fundamentally from the goodwill that is the true spirit of Christmas—a goodwill that springs not only from fondness for others but also from a recognition of the fine qualities in them.

Americans are not characteristically a humble people. Still, they know humility and value it. Our social and economic lives are governed by a complex kind of interdependence of one upon the other. We are continually made to realize how inadequate we are without the help and the goodwill of our neighbors and associates and our fellow employees. At Christmastime the average American comes closer to acknowledging his goodwill to his neighbor than at any other period of the calendar. We are inclined to be somewhat self-conscious and artificial in the process. Some of us sublimate our true feelings into excessive joymaking. We let paid copywriters speak for us and spend more than our incomes would properly justify for gifts which the recipients sometimes do not need. This is the way most Americans in a shy yet crisp way express their Christmas goodwill. But most are touched by mental images that go back to their childhood and to recollections of hearing the Christmas story for the first time, to Christmases

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Trends in Business

General Outlook

Some uneasiness has developed over the business situation in the last month, despite the fact that most of the indexes remain highly favorable. The word "recession" is not much in evidence, but there is a good deal of talk of "leveling off" and "flattening out."

In contrast, the Department of Commerce, though it admits there has been "some easing off of inflationary pressures" in certain non-durable lines, insists that the industries of most importance to the economy are still on the upgrade.

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To All Members of the
American Management Association
At this Joyous and Heart-Warming Season,
the Officers and Staff of the Association
take Great Pleasure in Extending to You
Our Sincerest Good Wishes for a
Merry Christmas
and Happiness in the New Year

President's Scratchpad

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past and to Christmases that never were but which all secretly hoped some day might be.

While men seem to think of material things at Christmas, they also enjoy warm comfortable memories—the family circle on Christmas Eve, the creaking snow on crisp December evenings, the wooded roads and wayside churches in rural America, cathedral candles and shrines, and they sense the closeness of a power and spirit greater than themselves. This feeling springs from the fellowship of humility that is only partly acknowledged and rarely articulated. Still it is there. It is in the laborer in whom the realization flashes that he is not skilled enough nor strong enough to be independent; it is in the teacher who appreciates that students require more than he or she can supply alone; it is in the trained engineer who knows that his meager knowledge is not enough to accomplish by himself a task that his profession places before him; it is sensed by the government official who realizes that the mandate that he has been given is too heavy for him to carry without assistance of others, by the farmer who realizes this most of all because he knows that behind the land there is a power greater than his own and greater than anything visible. The foreman and the business executive understand that the demands upon them for leadership are greater than they can give without help.

Yes, humility does have its uses. It is too bad that only in our half-formed Christmas sentiments do we make this acknowledgment. We would be greater individuals and a greater people if we felt a deep conviction concerning our reliance on others and our reliance upon an influence that is beyond this world from Christmas to Christmas.

This is a good season to reflect upon these things. It is good to recognize our own inadequacies. It is healthy for all of us to recognize and call upon a greater power than ourselves. Whatever our religion or philosophy identifies that power to be, none of us is big enough to tackle the task at hand alone. All about us are human beings who can help if we will but call upon them and guide them in the giving of assistance.

For that greater power is often made available to you and me through the lives of other people. As we recognize the capacity in those about us, and as we accept the service and help they are willing to render to us, we are receiving one manifestation, at least, of a power which is greater than ourselves.

There were a lot of fine people living in this world before you and I were born and they contributed a great deal to the progress of civilization. There are some mighty fine people yet to be born. Let's leave something for them to do. We can't all perfect and save the world within our lifetimes, but we can make a real contribution by doing everything possible to see that those who follow us are more adequate to meet the problems ahead than we have been.

Trends in Business

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Distribution

Figures on department store sales have probably contributed more than anything else to the general tendency to expect a leveling off. For six successive weeks in November and December, they ran under the 1947 figures. A spurt in the latest week (ending December 18), however, roused some hopes that total Christmas buying may at least equal last year's.

Employment

Also making for pessimism are persistent reports of layoffs in various sections of the country. The number of jobless rose from October to November by about 189,000, but the total was still only 1,831,000; and even if a further rise occurred this month, the year-end figure is not expected to be very great.

Business Week, which recently made its own survey of the layoff situation, sums up its findings like this: "Industry's manpower requirements are finally beginning to level off. The postwar squeeze in the labor market is a fraction easier now. This doesn't mean that workers are going to be easy to hire from now on. And it certainly doesn't mean that you'll have a labor surplus to talk to union leaders about in fourth-round wage negotiations."

Construction

Building permit values (Dun & Bradstreet) for November were slightly (2 per cent) under the figure for the corresponding month of 1947. Advances occurred, however, in three sections of the country: Middle Atlantic, South Central, and Mountain regions. Declines in other sections ranged from 3.3 per cent in New England to 18.3 per cent for the East Central Division. For the first 11 months of the year, permit values were 30.7 per cent above the 1947 level.

National Income

National income in the third quarter was running at the annual rate of $227 billion, the Department of Commerce reports. For the full year, it is estimated that the total will be in the neighborhood of $224 billion. The previous high was $202 billion in 1947.

Production

Further increases in production in some lines partly offset the slight declines that were reported in November, and the Federal Reserve Board's production index was almost unchanged at a near-peak level. The output of both durable and non-durable goods compared favorably with that for the corresponding period of 1947.

Sources:
ALEXANDER HAMILTON INSTITUTE
BROOKMIRE, INC.
BUSINESS WEEK
CLEVELAND TRUST COMPANY
DUN'S REVIEW
FEDERAL RESERVE BANK OF NEW YORK
NATIONAL CITY BANK

Research

What Is Productivity?

"Productivity" is a word of many meanings. Roughly it indicates the relationship between output and input. We speak of an "increase of productivity" when there is an increase of output while "input" remains the same, i.e. resources used to produce output are constant. We also recognize an increase when the same output is produced with fewer resources. Statistical measures of productivity attempt to approximate these notions as closely as possible.

The term "output" may be defined in various ways, such as the number of physical units or their value (gross or net). "Input" may relate output to one factor of production, such as output per unit of labor (man or man-hour), capital equipment (output per machine), raw materials (kilowatt hours produced per pound of coal consumed).

It is not possible to prescribe the use of any particular productivity index. Different measures must often be used for different purposes. Sometimes several measures are required to show results clearly. The main thing is to define each measure accurately and to take care to label it appropriately.

Yardsticks [1] • The most commonly used yardstick of productivity is physical output per man-hour or per wage-earner. It relates physical output (number of pieces, weight, liquid content, length, etc.) to the number of hours worked or the number of workers. Its simplicity and ready availability explain its popularity. But it is not an entirely satisfactory yardstick. It is an incomplete measure of labor input, since it takes no account of the supervisory work of foremen or of the labor which built the plant and machinery used to produce the output.[2] The measure also fails to include in input other elements of production like raw materials, fuel, and equipment.[3] For example, in 1946 the electric power industry used only one-third as much coal as in 1921 to produce a kilowatt hour of electric energy. The big drawback of the physical productivity measure per man-hour is, therefore, its neglect to take account of the influence of *all* input factors.

Clearly a common denominator is required to measure accurately all the factors of production contributing to the final product. Hours of work and money are probably the two most usable common denominators. The use of hours of work required to produce a given number of units is difficult. For it is highly intricate and practically impossible to calculate the "hours equivalent" for each of the factors needed to produce the final product, since those factors include the building, the machinery, municipal services, top management attention, etc., or to account for the differences in the skill and intensity of effort of different people.

Such diverse inputs can be more easily "amalgamated" through the use of costs. The costs to be used are to be adjusted for changes in purchasing power so as to provide as nearly as possible a constant measure. Here, of course, the question of an index appropriate for the factors to be considered arises, a matter which involves all the usual difficulties of index-number construction. Also, certain types of input might be understated—labor costs, for instance, because of failure to include "fringe payments."

It has been seen that single input items like man-hours or even a common denominator like money are seriously inadequate. For this reason Professor Hiram S. Davis has proposed the use of a series of ratios to measure productivity, such as output per man, output per ton of coal, productive equipment, materials, etc. Such a series of ratios would reveal the cause of a productivity change and possibly indicate an over-all trend.

Probably all three major measures need to be considered, since they fulfill to different degrees the needs of speedy availability, completeness and accuracy. Yet the most easily available measure, physical productivity, is likely to continue as the most popular.

Work of the BLS • The BLS has been collecting productivity data for many years. The data relate in the main to output per man-hour.

Primary information on productivity trends has been programmed in the following industries:

Manufacturing industries: Beet sugar refining, cane sugar refining, canning and preserving, cement, clay construction products, coke products, condensed and evaporated milk, confectionery, fertilizer, flour and other grain-mill products, footwear, glass products, hosiery, ice cream, leather, malt liquors, paper and pulp, rayon and allied products, nylon, tobacco, cigars, cigarettes, chewing and smoking tobacco, snuff.

Non-manufacturing industries: Eleven mining industries as a group and then follow the railroad industry, telephone and telegraph, and finally electric light and power.

No material is directly available on the over-all national rate of economic progress. Normally, deflated Gross National Product per man-hour is used to measure this factor, with the average annual increment rates being estimated to range somewhere between 1.7 and 2.3 per cent. Approximate figures of this kind are helpful in giving to the nation a rough progress report on economic advancement as well as a comparison with other countries, a comparison that was perhaps somewhat neglected by England, at her peril. With our present knowledge it seems, however, impossible to assign the causes of increased productivity with any degree of accuracy to any of the major contributing factors.

National Industrial Conference Board Studies • The National Industrial Conference Board has conducted two qualitative surveys of employer opinion on productivity developments: the first in September, 1946, and the second in June 1948. The 150 companies which regularly take part in NICB's

[1] This section is based on Hiram S. Davis, *The Industrial Study of Economic Progress*, 1947, pp. 16-35 and an interview with the author.
[2] F. C. Mills, "Industrial Productivity and Prices," *Journal of the American Statistical Association*, June, 1937, pp. 247-262.
[3] *Cost Behavior and Price Policy*, The Committee on Price Determination for the Conference of Price Research, 1943.

"Monthly Survey of Business Practices" participated.

The first survey drew largely on the metal fabricating sector of manufacturing and less importantly on manufacturers of textiles, paper, chemicals and food products. Questionnaire replies showed considerable confusion about the meaning of productivity and methods of measurement. The second survey showed little of this confusion. Even so, the Conference Board feels that too small a segment of management is acquainted with productivity studies and has developed satisfactory measurements. Several measures were used in the replies—output per man, dollar value of products per productive man-hour, dollar sales per employee, etc.

As compared to the period immediately before World War II, slightly over half the companies reported a decline in "labor productivity" in September, 1946, but only 15 per cent did so in June, 1948. While only 15 per cent reported an increase in September, 1946, over 60 per cent did so in June, 1948. The rest stated productivity remained the same.

At the job level • The most common method of measuring productivity at the job level is time study.[4] It is based on the assumption that with fixed methods of production, the employee's contribution to output is related to the skill and effort with which he works.

The accuracy of time study has been sharply attacked by a number of unions. Also, it is held that conditions of production may undergo frequent and important changes. Especial complaint is directed against the possible loss of increased earnings as physical productivity increases. Management, however, often argues that only increased productivity directly due to the employees' increased skill and effort should be rewarded, that suggestions should be rewarded, but that the reward should not be included in the wage structure, for otherwise distortions might be created. Increases in productivity due to factors other than labor, most managements believe, should not generally be passed on in higher wages to the workers concerned, but the benefits should be more widely diffused through price reductions.

Productivity data in wage negotiations • It is frequently said that higher wages should be paid in accordance with productivity increases, so that unit costs of production and prices will not increase or employment decrease. Over 20 years ago, when productivity increases appeared to be outstripping wage increases, the AFL passed a resolution advocating that wage earners participate in the benefits of higher productivity through wage-rate increases. At the present time, when wages appear to be rising faster than productivity, the argument is advanced that only higher productivity will justify further increases.

It is true that the national level of real wages cannot rise very much unless there is an increase in productivity. A close relationship between the *general* level of productivity and the *general* level of wages exists. There are, however, important arguments against basing a rise of wages in a particular industry on the rise in productivity in that industry.

In the first place, the data may not be accurate, or may not be generally accepted. For example, the BLS and the Textile Economics Bureau arrived at exactly opposite conclusions regarding the trend of output per man-hour in the rayon-producing industry from 1942 to 1944. BLS measured output by combining the different yarns into a total index by value weights, and found that the output ratio had increased; the Textile Economics Bureau reduced various sizes of yarn to an equivalent size, and found that the ratio had declined.

Another important point is that changes in productivity are caused by many factors other than labor—for example, new equipment, management efficiency, changes in the utilization of capacity. Again, there may be changes in the nature or design of the products, in the "product-mix," in the nature of the production process, etc., which may have an important effect.

Usually no effort is made to separate the influence of these factors on productivity. Some unions base their arguments on general statistics. Others point to specific changes in equipment, machinery, and methods as the causes of higher productivity and use them as an argument for higher wages. In the Steelworkers' case for an increased wage in 1946, the argument was supported by references to integration, changes in the labor force, new capacity, abandonment of old facilities, and increased volume production.

It must be remembered also that productivity changes vary greatly from industry to industry, and that if wage increases were directly proportional to the rise in the industry output ratio, great inequities in area wage rates would result. Thus, in the rayon industry, output per man-hour rose fivefold between 1925 and 1934, while the advance nationally was much less.

Most important of all, if wage increases were to absorb the full gains of increased productivity, there would be no possibility of price reductions, and workers eliminated by the more efficient methods could not be absorbed by the industry. They would thus become unemployed, or be forced to move elsewhere and depress the (possibly lower) wages in other industries. For these reasons the use of productivity as the sole criterion in wage negotiations is rare.

As a practical matter, the best wage policy would seem to be that which increases labor effectiveness most. This would most probably mean a careful evaluation of labor effort and *some* linking of wages to it on a company rather than on an industry level. This is obvious in regard to one set of cases, the learners, whose wage rates are generally advanced as they become more experienced. In addition, there is much to be said in favor of a rise in *real* wages in some proportion to the increase in real income per capita for the entire population (as in the G.M. settlement)—on grounds of equity, and also, many would say, on the assumption that labor contributes to economic progress. Working out a usable plan affords a wide opportunity for the exercise of good judgment, imagination, and initiative.

ERNEST DALE

[4] For methods see Ralph Presgrave, "What is a Fair Day's Work?" *Production Series No.* 163, American Management Association, 1946, pp. 28-51; Phil Carroll, Jr., "One View of Labor's Participation in Time and Motion Study," *Advanced Management*, 1941, VI: 75; Ralph M. Barnes, "Is the Rate of Output Right?" *Production Series No.* 161, *American Management Association*, 1945, pp. 11-18. For a criticism see William Gomberg, "A Union View of Cost Reduction," *Production Series No.* 159, American Management Association, pp. 37-44.

Listening Post

JAMES O. RICE

Pension plans • Among the subjects of great current concern to industrial relations men are pension plans and compulsory retirement policies. Part of the difficulty, of course, stems from the encroachment of collective bargaining on this important area of personnel administration—many fear that short-term expediency rather than sound judgment may now dictate new plans or changes in existing plans. Inflationary trends are another source of trouble. Plans which were adequate a few years ago now do not pay enough to make retirement attractive. Perhaps, too, as more and more plans have come into existence, there has been a tendency toward gradual liberalization, which has made some of the older plans seem less generous than they formerly did. One company writes that, having pioneered in the field, it now finds that the rest of the procession has not only caught up with it, but left it behind, with the result that its plan appears less valuable in the eyes of employees than it did in the past.

Compulsory retirement • A good many companies, too, are wondering whether they should not adopt some plan for conditioning older workers for retirement so that final separation from the job will mean less of a wrench for the individual. Further, there is some disagreement about the establishment of an arbitrary retirement age. "When we compare the chronological and biological ages of the same individuals," one manager writes, "a mandatory retirement at age 65 presents both a social and a psychological problem, even with adequate pensions."

Dr. Theodore G. Klumpp, President, Winthrop-Stearns Chemical Company, points out in the 1948 report of the New York State Joint Legislative Committee on Problems of the Aging: "A study was made of top business executives listed in Poor's Directory. Taking 500 consecutive names contained therein it was found that 143 or 28.6 per cent of those listed were over 65 years of age . . . over 44 per cent were over 60 years of age. . . . On the other hand, as far as the rank and file of workers is concerned, we have no objection to the imposition of blind and unselective compulsory retirement rules which automatically eliminate those in the ranks who have reached the same age regardless of their fitness, ability, and contribution. . . . If the premise is that all individuals over 65 or 70 are not worth their keep, then least of all should we permit individuals above those ages to occupy the top and critical positions in our social structure. If we acknowledge, as is certainly true, that some are and some aren't fit and pulling their weight at those ages, then we should use our intelligence to devise methods of determining which are and which aren't fit, for all workers, not just the upper crust."

Unions and production standards • Reports from the Middle West indicate that union pressure for influence on production standards will become much stronger in the near future.

"I believe that after the next round of wage increases, the question of production standards will be uppermost in the demands of union leaders," an AMA correspondent writes. "This subject has been receiving considerable attention from the unions in the past two years. In the future, much greater union activity in this area can be expected.

"What will be the position of employers on: (1) Training union time study experts? (2) Permitting disputes involving production standards to be decided by arbitration—or third party studies? (3) Permitting union time study men to study the jobs in disputes, and accepting the results of their studies?"

Productivity in Britain • Management circles in this country will watch with interest the progress of the campaign recently inaugurated by British labor unions to increase productivity.

Last month the General Council of the Trades Union Congress published a report on the subject which calls for dissemination of information on the importance of higher output at the workshop level, efforts to solve technical problems, and better training for union men. It suggests, for example, "reviewing the system of shop stewards and other workplace representatives and seeking to raise their efficiency by Training Within Industry courses or by other means, and considering how far it is possible to take advantage of the courses provided by existing agencies for instruction in management and technical subjects."

It is also advocating consultation on production problems through management-labor committees, especially at the workshop level. "The reasons for the slow development of this joint machinery are varied," the report says. "There is hostility on the part of some employers; there is indifference and even opposition on the part of some workers. In some cases there may be a lack of knowing how to start. The General Council urge [union] executives to examine the extent to which joint production committees or similar bodies are operating in their industry and the difficulties which are preventing a wider adoption of this form of machinery."

In addition, the report contains a section of the unions' own restrictive practices, which it recognizes as a possible obstacle to higher productivity. Only one such practice, however, is given specific mention—"demarcation," which our British translator tells us is equivalent to "jurisdiction."

"It must be recognized," the report says, "that demarcation problems create difficulties in regard to efficient and economic working. These problems, involving traditional policy originally designed for the protection of certain classes of labor, should be examined in the light of the present full employment policy and particularly of the loss of production and employment pending a settlement of any demarcation disputes which arise."

Activities of the AMA

Personnel Men to Discuss Changes in Labor Law

The probable course of labor legislation and the demands labor is likely to make when union contracts come up for renegotiation in 1949 will be forecast at the AMA Personnel Conference, February 14-16. Sessions will be held at the Palmer House, Chicago.

Discussions will cover not only the expected demands for direct wage increases, but developments in the fringe-benefit area. In addition, the effect of recent court decisions and new demands on the scope of collective bargaining will be analyzed.

Other subjects scheduled for discussion include: executive compensation and merit rating, foreman training, personnel record-keeping, latest developments in employee testing, employee recreation, and pensions. One entire session will be devoted to the last subject, and will include talks on "The Ideal Pension Plan," "Preparing the Employee for Retirement," and "Keeping the Pension Plan Up to Date."

A special feature of the conference, also, will be an "Operating Problems Clinic" at which members of the audience will have an opportunity to put individual company problems before a panel of experts.

John A. Stephens, Vice President, Industrial Relations, U. S. Steel of Delaware, and AMA Vice President for the Personnel Division is in charge of arrangements for the program. He is being assisted by members of the Personnel Division Council, which includes:

Harry W. Anderson, Vice President, General Motors Corporation; Guy B. Arthur, Jr., President, Management Evaluation Services, Inc.; Frederick G. Atkinson, Vice President, R. H. Macy & Co.; Garret L. Bergen, Divisional Vice President and Personnel Manager, Marshall Field & Company; John S. Bugas, Vice President and Director of Industrial Relations, Ford Motor Co.; Samuel L. H. Burk, Director of Industrial Relations, Pittsburgh Plate Glass Company; Ernest de la Ossa, Director of Personnel, National Broadcasting Company; Elinore M. Herrick, Personnel Director, *New York Herald Tribune*.

Charles R. Hook, Jr., Vice President, Personnel, The Chesapeake and Ohio Railway Company; C. L. Huston, Jr., Executive Assistant to the President, Lukens Steel Company; Fred A. Krafft, Director of Industrial Relations, The Midvale Co.; Ben F. McClancy, General Manager, The Associated Industries; James P. Mitchell, Vice President in Charge of Personnel, Bloomingdale Bros.; Ralph M. Monk, Director of Industrial and Labor Relations, Caterpillar Tractor Co.

W. H. Montgomery, Manager of Industrial Relations, Socony-Vacuum Oil Company; Robert Newhouse, Manager of Industrial Relations, Stanolind Oil and Gas Co.; Harold F. North, Industrial Relations Manager, Swift & Company; G. H. Pfeif, Manager, Employee Relations, General Electric Company; Albert Regula, Vice President in Charge of Personnel, General Time Instrument Corporation; James Tanham, Vice President, The Texas Company; Ivan L. Willis, Vice President, International Harvester Company; W. H. Winans, Industrial Relations Department, Union Carbide and Carbon Corp.

Finance Conference to Hear Analyses of Business Outlook

Talks on two of the main factors affecting the business outlook will be featured on the opening day of the two-day AMA Finance Conference, set for January 20-21 at the Hotel Statler in New York City. Ralph J. Watkins, Director, Office of Plans and Programs, National Security Resources Board, will discuss "Implications of the National Security Program for Business Planning," and Dr. Marcus Nadler, Professor of Finance, Graduate School of Business Administration, New York University, will speak on "The Future Trend of Interest Rates."

The afternoon of the first day will be devoted to a panel session on "The Public Relations of Profits," at which speakers will include: Howard Chase, Director of Public Relations, General Foods Corporation; Ralph A. Hayward, President, Kalamazoo Vegetable Parchment Co.; Rufus Tucker, Economist, General Motors Corporation; and William W. Werntz, Touche, Niven, Bailey & Smart.

Addresses on the 21st will be: "The Impact of Inflation on Corporate Reserve Policies," by Dr. Ralph C. Jones of Yale; "Appraisal of Management as a Credit Factor," by Randolph W. Hyde, Treasurer, Carnegie-Illinois Steel Corporation; "Key Factors in Inventory Planning," by A. W. Zelomek, Economic Counselor, International Statistical Bureau, Inc.; and "The Probable Course of Taxation," by E. C. Alvord, Alvord & Alvord.

The afternoon of the second day will feature a panel session on "Sources of Funds for Current and Future Capital Requirements."

Among the speakers will be August Ihlefeld, President, Savings Banks Trust Company, New York; Dexter Keezer, Economist, McGraw-Hill Publishing Company; Earl B. Schwulst, Executive Vice President, The Bowery Savings Bank, New York; Dean Langmuir, Investment Counselor; Sherwin C. Badger, New England Mutual Life Insurance Company.

Binders Available

Ring binders for filing issues of the *Management News* may be purchased from AMA Headquarters, 330 West 42nd Street. Binders are made of sturdy fabricoid, imprinted with silver foil, and each will hold 40 or 50 issues.

Marketing Council

The Planning Council of the AMA Marketing Division will meet on January 6, at the Association Headquarters, 330 West 42nd Street, New York, to make plans for a two-day conference on marketing problems. The conference is scheduled for March 17–18 at the Hotel Statler, New York.